



## City of Durham Affordable Housing Goals 2016-2020 Draft 2/18/16

### A. Definitions

*Affordable housing* – Housing that is affordable to low-income households (i.e. households earning less than 80% of Area Median Income) based on those households paying no more than 30% of their gross household income for housing-related expenses. There are two categories of affordable housing:

- *Income-restricted affordable housing* – Housing that is intentionally developed as affordable housing and is only available to households that meet specific income limits.
- *'Market' affordable housing* – Unrestricted housing that is affordable based on price point, but is not restricted to low-income households. Unlike income-restricted housing, prices on market affordable housing can rise based on market conditions, making the housing unaffordable to low-income household.

*Area median income (AMI)* – Area Median Income, or AMI, refers to the midpoint of the income distribution for a specific geographic area, as defined by HUD using data from the U.S. Census Bureau. HUD calculates AMI levels annually, with adjustments for household size. These AMI levels are frequently used to determine eligibility for housing assistance involving federal funds. For the purposes of HUD's AMI calculations, Durham is part of the Durham-Chapel Hill MSA.

#### 2015 Durham-Chapel Hill Metro Area Income Limits by Household Size

AMI Level	1 person	2 person	3 person	4 person	5 person	6 person	7 person	8 person
30% AMI	14,150	16,200	18,200	20,200	21,850	23,450	25,050	26,700
50% AMI	23,600	27,000	30,350	33,700	36,400	39,100	41,800	44,500
60% AMI	28,320	32,400	36,420	40,440	43,680	46,920	50,160	53,400
80% AMI	37,750	43,150	48,550	53,900	58,250	62,550	66,850	71,150

*Housing cost-burdened:* Households are considered housing cost-burdened if they are paying over 30% of gross household income for housing-related expenses, which could include rent and utilities, or mortgage, insurance, taxes and utilities. Households are considered severely *housing cost-burdened* if they are paying over 50% of gross income for housing-related expenses.

*Low-income:* This report uses the definition established by HUD. *Low-income* refers to households earning less than 80% of AMI. When used along with the terms of *very low-income* and *extremely low-income* (see below), *low-income* specifically refers to households earning 51-80% of AMI.

- *Very low-income:* Refers to households earning between 31% and 50% of AMI, as defined by HUD.
- *Extremely low-income:* Refers to households earning 30% or less of AMI, as defined by HUD.

*Low-Income Housing Tax Credit (LIHTC):* The Low-income Housing Tax Credit, or LIHTC, is a federal income tax credit for companies that invest in affordable rental housing that meets specific program guidelines. The LIHTC is the primary vehicle through which affordable rental housing is financed in the U.S. today. There are two forms of tax-credits: 9% and 4%. The 9% credits offer a much deeper subsidy but the amount of credits available is capped so there is significant competition to secure awards. The 4% credits are much more available but offer a shallower subsidy that is generally insufficient to fully finance new construction without substantial additional subsidy. They are most often used to preserve existing rental housing that is in need of moderate rehabilitation.

*Mixed-income:* Mixed-income is a term used to refer to a building or development that contains both affordable and market rate homes. The specific definition of affordable and market rate can vary, however, depending upon the location, project type and target population. For rental housing in Durham, mixed-income typically refers to a development that includes units affordable to households earning 60% of AMI or less, and market-rate units targeting households with incomes above 60% AMI. Similarly, for homeownership in Durham, a mixed-income project would include affordable units targeted to households earning below 80% of AMI, and market rate units targeting households with incomes above 80% AMI. However, it is worth noting that most affordable housing that is not formally mixed-income serves people with a range of incomes. Affordable rental housing typically serve households with a range of incomes, from below 30% AMI up to 60% AMI. Citywide, the majority of renters in Durham earn less than 60% of AMI.

*Preservation:* Preservation is a term used to describe a broad range of activities aimed at keeping existing affordable housing affordable for a longer period of time. For rental housing, this could include ensuring that income-restricted housing remains affordable after the mandated period of affordability comes to an end, and/or the placement of affordability restrictions on existing market affordable housing as a result of property acquisition or refinancing. For homeownership, this could include programs to help existing low-income homeowners remain in their homes (e.g. owner occupied rehabilitation programs, property tax relief) or the placement of long-term affordability restrictions on homes developed and sold to low-income buyers, particularly in neighborhoods where prices are rising.

## B. Background

The City of Durham is facing a number of housing challenges, illustrated in more detail in the Durham Housing Profile (Attachment 1). These include:

- Significant shortage of housing affordable to very low-income households, primarily renters, who earn less than 50% of area median income. For example, for every 100 very low-income renter households, there are only 79 rental units affordable to them. As a result, some 27,000 low-income households are housing cost-burdened, which means that they are paying over 30% of their income for housing. Of these, 15,000 are severely housing cost-burdened, paying over 50% of their income for housing. Because renters have lower incomes in general than homeowners, the majority of these housing cost-burdened households are renters.
- The housing situation is particularly acute for extremely low households (earning less than 30% of AMI). Of the 12,000 extremely low-income households in Durham, over 70% are severely housing cost-burdened. For every 100 households earning <30% AMI, there are only 38 rental units affordable to them.
- Very low-income households, particularly renters, are concentrated in certain parts of the City, particularly northeast central Durham (NECD). In some Census tracts in this area, over 50% of households are severely housing cost-burdened.
- On any given night, approximately 750 Durham residents are homeless. The homeless population includes both single adults and families with children. A small percentage of these individuals fit the “traditional” picture of homelessness, resulting from untreated mental health conditions or substance abuse, but many others have lost their homes because of job loss, a health crisis, domestic violence, divorce or other life event.
- Although Durham is a relatively affordable city overall, prices are rising, particularly in central city neighborhoods, as a result of continuing population growth and a shift in consumer preferences towards living in or near the downtown area. As a result, neighborhoods that had previously been relatively affordable are experiencing rapid escalation in rent and sales prices.

At the same time, Durham has a number of strengths and opportunities to significantly address these housing challenges:

- Durham is still a relatively affordable city, as previously noted, relatively early on the cost escalation curve (compared, for example, to other rapidly growing cities such as Denver and Seattle). This makes it easier – and less expensive – to begin to address housing challenges.

- Durham and Chapel Hill are working on plans for a light rail corridor connecting the two communities which, if funded, could result in additional investment in and around proposed light rail stations. This corridor, coupled with enhanced bus service, could provide better transit service for area residents, particularly the 10,000 households in the City who do not own cars.
- The Durham Housing Authority, which owns over 30% of the existing income restricted affordable housing in Durham, is in the process of refinancing its portfolio through the federal Rental Assistance Demonstration (RAD) program, opening up opportunities to consider larger-scale, mixed-income redevelopments on housing authority sites. A number of these sites are strategically located near downtown or along the proposed light rail corridor.
- The City and other public agencies own a number of significant parcels of land, particularly in the downtown areas (especially east of Roxboro) creating the possibility of launching a large-scale redevelopment effort in the downtown area that could include a range of housing options, along with office and retail.

Perhaps most importantly, Durham residents, elected officials and city leaders share a concern about housing affordability and a willingness to take action. The creation of the Dedicated Housing Fund (sometimes referred to as the Penny for Housing) is a powerful example of that fact. If the City can rally this support around a well-defined set of priorities, Durham could emerge as a leader in affordable housing and the creation of an inclusive city.

## C. Draft Goals

The goals below are divided into two groups and include a selection of priority strategies from the broader development, preservation and neighborhood revitalization categories as outlined in Attachment 2: *Strategies for Affordable Housing Development, Preservation and Neighborhood Revitalization*. The first group falls under the scope of authority of the Department of Community Development, the client for this engagement. The second group of goals are broader, and apply to the city as a whole. For estimates of city resources required to implement these strategies, please refer to Attachment 3.

It is important to note that these goals assume a significant increase in housing production and preservation efforts from current levels. This will not be accomplished overnight, as the City will need to build internal and external capacity and partnerships to support this higher level of production.

### 1. DCD Goals

- a. **Produce affordable rental housing to meet highest need populations, particularly households at or below 50% AMI.** DCD will work with developers to build a pipeline of high

quality, green affordable housing located close to services and amenities, and to the extent possible, near current or future high frequency bus<sup>1</sup> and light rail corridors.

- These projects will include a rental units serving households below 30% AMI, including units targeted to formerly homeless households, as well as units for higher income households, potentially including market-rate units.
- The primary vehicle for financing below 50% AMI housing will be the 9% LIHTC (with additional local subsidy), with DCD also pursuing opportunities to leverage the 4% LIHTC with local resources to develop additional projects through new construction or acquisition of existing market-rate rental developments. DCD may also use federal and local subsidy resources to build or acquire smaller scale rental developments (single family homes, duplexes, small apartment buildings).
- Where possible, DCD will seek to use existing city-owned land for housing development, as well as to engage other institutional property owners.
- To ensure long-term affordability, DCD will seek to work with partners with a demonstrated commitment to developing and maintaining affordable housing for the long-term.

❖ *Five-year target: 300 affordable rental units created or in production.*

❖ *Geography: Citywide, with a priority given to sites in target neighborhoods for city investment, transit corridors, and neighborhoods where housing prices are rapidly escalating.*

❖ *Relevant Strategies: B.1.a-i.*

**b. Strengthen the homelessness housing system.** DCD and its partners have experienced considerable success with the rapid rehousing program and other homelessness support and prevention services. As housing prices rise, this work will become even more important. DCD will seek to ensure that the full range of homeless housing needs are met, including serving the most challenging households (i.e. those with multiple barriers to housing, such as mental illness, substance abuse, criminal records, lack of employment or other income source), and that the homeless housing system is capable, effective and integrated into the larger affordable housing delivery system,

- DCD will focus on building the capacity of the Continuum of Care (CoC) to address increasing expectations from HUD and the challenges on the ground. The first step will be to assess the capacity of the CoC in light of expectations (both national and local) and develop a strategy for capacity-building going forward.
- As housing prices rise, service providers are struggling to find appropriate units for voucher holders. DCD will address this challenge by supplementing federal resources with flexible local funding for the Rapid Rehousing program and associated support services.
- DCD will assess the costs and benefits associated with becoming HUD Unified Funding Agency and make a determination of how to move forward. HUD Unified Funding Agency is a relatively new idea that might offer the opportunity to more readily align

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<sup>1</sup> A high frequency bus corridor is defined as having service every 15 minutes for the majority of the day.

the homeless housing delivery system around common goals, but could also bring with it very onerous monitoring and compliance expectations. Currently, HUD Unified Funding Agency status is not required to leverage homeless funding, but that could change in the future.

- As noted in Goal (a), DCD will seek to expand the supply of units serving formerly homeless households.

- ❖ *Five-year target: High-capacity CoC providing long-term, sustainable solutions to address the housing needs of Durham's homeless population; increase in number of high-barrier homeless households successfully housed.*
- ❖ *Geography: Citywide, with a goal of housing formerly homeless households in areas with good transit connectivity and accessibility to support services.*
- ❖ *Relevant Strategies: B.1.f-g.*

**c. Preserve existing affordable rental housing serving households at or below 50% AMI.** DCD will assess the current inventory of income-restricted affordable housing to identify units that are at risk of being lost because of expiring affordability restrictions (see Attachment 4).

- DCD will seek to work with property owners to preserve these units, which may include working with owners to assemble funding recapitalize and rehabilitate their properties, and/or to transfer the properties to entities able to maintain them as affordable housing long-term.
- The priority will be on preserving units that serve the most vulnerable populations, are located in neighborhoods experiencing significant housing price appreciation, and/or are owned by organizations with a demonstrated ability to manage the properties long-term and with a commitment to long-term affordability.
- In addition, DCD will support efforts to acquire existing market rate developments that serve low income households in order to preserve them as income-restricted affordable housing long-term.

- ❖ *Five Year Target: 350 affordable rental units preserved.*
- ❖ *Geography: Citywide, based on location of existing properties.*
- ❖ *Relevant strategies: C.1.a-d.*

**d. Preserve affordable homeownership serving in appreciating neighborhoods.** A number of neighborhoods, particularly in central Durham, are experiencing rapid price escalation, with home prices increasingly out of reach of low-income residents. In targeted neighborhoods, beginning with a subarea to be defined in northeast central Durham, DCD will work to create homeownership opportunities serving households between 60-80% AMI (or lower) by:

- Supporting construction and/or acquisition and rehabilitation of existing units to be sold to low-income buyers, with resale restrictions to ensure that units remain affordable for the long term.
- Providing downpayment and closing cost assistance for low-income buyers.

- Stabilizing existing homeowners in targeted neighborhoods, with a focus on owners with incomes at or below 50% AMI, by financing rehabilitation efforts to address physical housing problems and/or increase energy and water conservation. DCD will also work to expand use of existing property tax relief programs by low-income senior and disabled households.

- ❖ **Five Year Target:** *50 homeownership opportunities created; 50 owner-occupied units rehabbed*
- ❖ **Geography:** *Target neighborhoods for city investment, transit corridors, and neighborhoods where housing prices are rapidly escalating.*
- ❖ **Relevant Strategies:** *B.2.a-d, C.2.a-d.*

- e. **Expand homeownership for low-income households citywide.** Homeownership remains an important wealth-building strategy for many households, particularly low-income, historically underserved populations. These households may have the ability to pay a mortgage and maintain a home, but lack sufficient up front capital for a downpayment and
- f. closing costs, especially in the face of stricter lender requirements. DCD will help address this gap by providing downpayment and closing cost assistance to low-income buyers. In addition, DCD will work to stabilize existing low-income homeowners by providing financing for minor repairs and by increasing the participation in existing property tax relief programs.

- ❖ **Five Year Target:** *50 homeownership opportunities created through the provision of downpayment and closing cost assistance; 150 households stabilized through minor repair program; increased participation in property tax relief programs.*
- ❖ **Geography:** *Citywide.*
- ❖ **Relevant Strategies:** *B.2.a.*

- g. **Finish Southside redevelopment.** As initially conceived, the Southside redevelopment envisioned three phases of multifamily rental housing and two phases of homeownership. The first phases of rental and homeownership have been completed and the second phase of rental is in process. The success of these phases has already led to growing market interest and rising prices in the neighborhood. DCD is committed to completing the project, but recognizes that the rapidly changing market conditions may require adjustments to the original plan. DCD is committed to ensuring that any additional homeownership units developed in Southside will include longer-term affordability restrictions and will strive to increase the number of current Southside residents moving into the new rental developments, where they will have the security of long-term affordability.

- ❖ **Five Year Target:** *All phases complete. Current plans call for an additional 145 multifamily units (67% affordable) and 23 homeownership units (51% affordable) developed.*
- ❖ **Geography:** *Southside.*
- ❖ **Relevant Strategies:** *D.1.a-d.*

- h. **Launch a new neighborhood initiative focused on a subarea to be defined of northeast central Durham.** Parts of northeast central Durham (NECD), particularly around Golden Belt and Angier and Driver, are experiencing rapid price appreciation, raising concerns that low-income residents, primarily renters, will be displaced as rents rise or former rental homes are sold to higher income buyers. At the same time, there are a number of important efforts already underway in NECD, including the Mayor's Anti-Poverty Initiative, the East Durham Children's Initiative, and housing and economic development efforts by Self Help, Habitat, the City (Office of Economic and Workforce Development) and others. DCD will seek to coalesce these activities into a larger collaborative effort that will engage residents and align stakeholders on a set of common goals.
- DCD, with the support of City leadership, will serve as convener, bringing together residents, community organizations, businesses and other stakeholders to build consensus around a vision and goals for the redevelopment of the target area, and an understanding of how their efforts fit into a larger picture.
  - In addition, DCD will take the lead on housing-related efforts, focusing on preserving affordable housing, both rental and for sale.
- ❖ *Five year target: To be defined through dialogue with stakeholders.*
- ❖ *Geography: Subarea to be defined of NECD*
- ❖ *Relevant Strategies: D.2.a, D.2.c-f.*

## **2. Other City Goals**

- a. **Increase resources for affordable housing and neighborhood revitalization.** Federal housing resources have been on the decline and even with the addition of the Dedicated Housing Fund (DHF), local resources will not be sufficient to address the housing needs at the scale suggested by these goals. As production capacity increases, the City should consider increasing funding, linking this funding increase to the establishment of clear and realistic housing goals, and an effective system for monitoring and reporting on progress towards these goals to elected officials and to the public.
- The most likely sources of additional funding are an increase in the DHF or through issuing a new housing bond. An increase in the DHF would provide an ongoing stream of revenue to expand the City's housing efforts. A housing bond could provide a large influx of resources over a shorter time period to support large place-based redevelopment or preservation efforts.
  - The City could also look at expanding the use of municipal service districts to support place-based efforts, and the use new Property Assessed Clean Energy (PACE) legislation to support efforts that address energy efficiency.
- ❖ *Five Year Target: Sufficient resources available to achieve the goals laid out in this plan.*
- ❖ *Geography: Citywide.*
- ❖ *Relevant Strategies: E.1.a-d.*



- b. Develop a closer alignment with the Durham Housing Authority.** The Durham Housing Authority (DHA) is the largest affordable housing provider in the city, owning almost all of the city's stock serving extremely low-income households. Moreover, many DHA properties are located in strategic locations, including several near future light rail stations. Given the importance of DHA's portfolio, it is essential that the agency remain strong and stable and that its efforts are closely aligned with City priorities.

DHA is at a critical point in time, with an imminent leadership transition at the same time that the Authority is working to convert and stabilize its entire public housing portfolio through HUD's Rental Assistance Demonstration (RAD) Program. If DHA is successful, it should emerge from the RAD process with a strong internal development capacity backed up by a strong balance sheet, and will be well-positioned to take on new efforts to expand affordable housing in Durham.

It is not clear if DHA has sufficient internal capacity to carry out the RAD conversion and to address other pressing programmatic challenges, particularly in light of the upcoming leadership transition. Because of federal funding cuts, DHA's staff has been downsized in recent years. The Authority currently has a capable, but very small development team handling a very large and growing portfolio of work, with the Authority's resources being further strained by predevelopment costs associated with converting multiple properties in the same time frame. Once DHA begins to receive developer fees from the rehabilitation and refinancing of properties, its operating position should improve – but these developer fees may not be realized if the RAD conversion process stalls due to lack of capacity.

To ensure that DHA is positioned for success, the City should work with DHA to quickly bring in external support – with an expertise in RAD conversions – to review DHA's plan and assess the capacity needed to execute them, and then make recommendations about how to move forward. The City and DHA should continue to explore ways to more closely align the City and DHA's leadership team and organizational priorities.

- ❖ **Five Year Target:** *DHA and City priorities closely aligned and DHA on track to successfully convert its entire portfolio.*
- ❖ **Geography:** *DHA sites.*
- ❖ **Relevant Strategies:** *A.1.d, B.1.h, B.3.d, D.2.a-b.*

- c. Leverage public resources to build an inclusive downtown.** While growth has brought new higher-priced housing and new residents to parts of downtown, other parts of downtown, primarily to the east, are dominated by public institutions and public housing. In terms of footprint, Liberty Street is the largest of the public housing developments, containing 108 low rise family units. The Durham Housing Authority has indicated the willingness to consider a major redevelopment of Liberty Street, which could be the starting point of a larger redevelopment that incorporates other publicly and community owned properties in the surround areas, including multiple city and county parking lots, church properties and nonprofit organizations. This would be a complex, multiyear efforts that would require

significant investment, but, if successful, would result in a truly inclusive downtown. The first step in this effort would be to convene key stakeholders, including the City, County, major property owners in the area, Downtown Durham Inc. and other civic leaders to create a vision for this redevelopment effort.

- ❖ *Five year target: Vision and goals defined and redevelopment efforts underway.*
- ❖ *Geography: Downtown.*
- ❖ *Relevant strategies: B.3.a-d.*

- d. **Explore the possibility of incorporating an enhanced density bonus as part of compact design districts.** The City is moving towards creating form-based compact design districts in future light rail station areas, with the goal of promoting density and a mix of uses associated with transit-oriented development (TOD). Assuming that there is market demand for this type of development, the rezoning of properties from lower intensity uses to the compact design district designation will make them more economically valuable.

Ideally, the City would be able to channel a portion of this value being created to support affordable housing. In North Carolina, mandatory strategies such as inclusionary zoning, which can be effective in these circumstances, are prohibited by state law. Developers seeking rezoning of specific parcels to a higher density can voluntarily proffer affordable housing contributions (e.g. units, land, money) that are incorporated into approved development plans. However, a project-by-project strategy in which the City mandates the inclusion of affordable housing as part of a rezoning or other entitlement approval would be legally questionable.

Equally importantly, a project-by-project rezoning strategy would be cumbersome, slow and likely to drive up costs across the entire Durham market. A more efficient system would be built into the zoning code and would provide developers with clear and predictable rules to follow. To this end, Durham is in a unique position because the City Charter Section 94.2 specifically authorizes the City to grant density bonuses or other incentives of value to a housing developer if the developer agrees to target at least 15% of total housing units to low- and moderate-income households, as defined by the U.S. Department of Housing and Urban Development. (See Attachment 5 for the text of this Charter provision.) For this reason, the City should consider whether an enhanced density bonus could be incorporated into the compact district zoning, and/or any other zoning districts.

Currently, the effective limit on density of residential construction in most parts of Durham is the maximum allowable height for stick construction (five stories). In order for an enhanced density bonus to work, the base zoning allowed in the compact design districts would need to be reduced below this threshold (but not below the density allowed under current zoning in these areas). Once properties are rezoned to compact design district status, developers would be able to develop at the base density, or could choose to provide a specified amount of affordable housing in return for an enhanced density bonus that

would enable them to develop at much higher densities, comparable to what is allowed now in the compact design districts.

It is not a given that an enhanced density bonus could work, but the possibility is worth exploring. The critical question is whether there is sufficient economic value being created through the density bonus to cover the cost of the affordable units while still being economically attractive to developers when compared to the base zoning. If this is not the case, developers will choose to develop at the base zoning level, and the City will not realize the goal of creating compact, higher density, walkable communities around transit.

There are a number of questions to be addressed before moving forward with any changes to the compact design districts, including:

- What should be the affordable requirement? The City's charter provision suggests at 15% threshold for low and-moderate income households, but this is a very broad target. HUD's definition of low and moderate-income varies by program – for CDBG 'low/moderate income' is defined as under 80% of AMI, while for HOME 'low-income' is under 80% of AMI and moderate income is not defined. Beyond definitions, the critical issue for Durham will be whether it is possible to set a target that generates affordable units while still ensuring that the project is economically attractive to developers.
- Is there potential to generate enough affordable housing to justify the political and administrative costs of making this change? There would likely be resistance from the development community. The City would need to rewrite the compact design districts requirements, and then monitor development for the affordability period established in the Unified Development Ordinance.
- Economic conditions vary significantly across station areas. Would the same bonus work in all station areas, or would there need to be differentiation among station areas – and could this make the system too complex to manage?
- Are there alternatives to the inclusion of units as part of the development that could provide more flexibility to meet the City's housing goals – e.g. provision of units off site, donation of land, or payment into a fund used to develop affordable housing? The City's Charter provision specifically references units being provided as part of the development, so the legality of these alternatives would need to be assessed.
- Is there any way to make density bonuses work for commercial development? If it turns out that the enhanced density bonus cannot be applied to commercial development, how does the City avoid the unintended consequence of driving development in compact districts away from residential and towards commercial?

It is important to note that any affordable units being provided by market rate developers would likely be at the high end of the affordability range, probably at or above 60% AMI. Unless additional subsidies are provided, the financial gap entailed in reaching lower AMIs is generally too significant to be bridged with a density bonus alone. While the need for affordable rental housing is not as great in this income range currently, it seems likely that the

need will grow as housing prices in Durham continue to rise. In these circumstances, an enhanced density bonus could be one more tool the City has to meet the full range of residents' housing needs.

- ❖ **Five year target:** *Feasibility of an enhanced density bonus determined, and, if feasible, bonus in place, resulting in affordable housing creation.*
- ❖ **Geography:** *Areas to be rezoned compact design districts.*
- ❖ **Relevant strategies:** *E.2.b.*

### **Attachments: Supporting Documents**

1. City of Durham Housing Profile – PowerPoint presented to Durham City Council on 12/10/15
2. Strategies for Affordable Housing Development, Preservation and Neighborhood Revitalization
3. Estimate of City Subsidy Required for DCD Housing Goals
4. Analysis of Federally and Locally-Subsidized Affordable Housing, City of Durham, NC
5. City Charter Section 94.2.
6. Durham Downtown Rental Housing Subsidy Program Draft Program Guidelines, 12/30/15